

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 1998 to the Fourth Quarter of 2002

The outlook for Idaho employment over the next few years has improved since the October 1998 *Idaho Economic Forecast* was published. The biggest change occurs in 1998. Previously it was anticipated that nonfarm employment in the Gem State would rise 2.2% to 520,182. In the current forecast, this same measure is expected to increase 2.9% to 523,580. All of this improvement reflects the stronger-than-expected job picture in the second and third quarters of 1998. New data show that employment was more than 4,000 higher than had been previously estimated in each of these quarters. The most notable surprise was construction, whose employment was up more than a 1,000 in each of these quarters. Services-related employment was up around 2,000 compared to the last forecast. Interestingly, Idaho real and nominal personal incomes are both down slightly during those same two quarters. This is due in large part to the impact of lower interest rates on the dividend, interest, and rent portion of personal income.

The higher employment numbers in 1998 will not have much of an impact beyond raising the starting point for the current forecast. As was mentioned above, the nonfarm employment growth rate in 1998 has been raised from 2.2% to 2.9%. However, employment expands at roughly the same rate in the remaining years of this forecast as it did in the previous one. Specifically, it is forecast to rise 1.6% in 1999, 2.2% in 2000, 2.1% in 2001, and 2.5% in 2002. In the previous forecast it was expected to rise 1.6% in 1999, 2.1% in 2000, 2.1% in 2001, and 2.6% in 2002. This is not surprising because the national outlook has not changed dramatically. Idaho personal income displays a similar pattern. Idaho nominal personal income rises 4.4% in 1999, 5.1% in 2000, 5.2% in 2001, and 5.6% in 2002. This about the same as in the previous forecast. Idaho real personal income is forecast to rise 2.4% this year, 2.7% next year, 2.6% in 2001, and 2.9% in 2002.

Although the baseline forecast does not include a recession, this is a possibility. If the national economy were to slip into a recession, the outlook for Idaho's economy would not be as bright. This is explored in detail in the *Alternative Forecasts* section of this report. To summarize, while growth rates for both Idaho nonfarm employment and personal income would vary, the levels of both would be lower than in the baseline case by 2002. It bears repeating again: no recession is anticipated over the forecast period. However, the expected slowing does increase the economy's exposure to a national downturn.

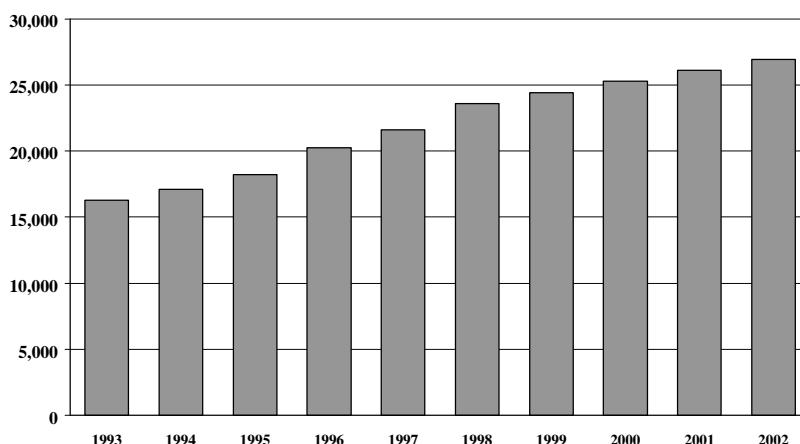
SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery: Idaho's electrical and nonelectrical manufacturing sector should experience slow employment gains over the forecast period. This is a significant change from this decade's first seven years when the state's high-tech boom helped this sector's employment rise 8.0% annually. Most of these job gains came from two Boise firms, Micron Technology and Hewlett-Packard. Both benefited from products that were in high demand. Micron, one of the world's largest manufacturers of computer memory, prospered earlier this decade thanks to the strong demand for memory caused by burgeoning personal computer sales and the increased memory demands of both increasingly complex computer hardware and software systems. This bolstered Micron's profits and helped its employment expand rapidly in the early 1990s. Company-wide employment also increased due to the company's diversification into other areas, such as the manufacturing of complete personal computer systems. However, things changed abruptly in 1996. The price of memory chips collapsed that year as Asian competitors flooded the market with memory chips from newly operational plants. This slump still persists, but there are some signs that it has bottomed out. Recently, Micron was able to raise the prices for some of its products. Not only has the company survived the recent downturn, but it seems well positioned to take advantage when the market improves further. Micron completed its purchase of Texas

Instruments' memory business in the autumn of 1998. This move should have little short-term impact on Idaho employment. However, it could have a more subtle impact down the road. Micron acquired several semiconductor fabrication plants around the world as part of its Texas Instruments' deal. The company also has a mothballed plant in Utah. Thus, the company has significant excess capacity available when the memory chip market turns around. Unfortunately, none of this new capacity is in Idaho. Thus, when

chip prices rise, it can no longer be assumed that increased production and jobs will occur in Boise. They may take place in Utah or one of the other newly acquired plants instead. In October, Intel invested \$500 million in Micron. This investment was made to assist Micron's development of the next generation of memory products. This move helps Micron remain a cutting-edge player in the global market. The fortunes of Hewlett-Packard's Boise site also surged in the early 1990s thanks to favorable market conditions. The demand for this company's popular laser printers and the other products developed and manufactured in Boise helped its local employment swell over 5,000. Its employment has contracted since then. In the mid-1990s, the company refocused the Boise site's mission away from production toward research and development. As a result, the surface mount and hard drive manufacturing operations at the Boise plant were dropped. This took employment down to about 4,000. In a similar move, Hewlett-Packard recently sold the manufacturing assets of its formatter board manufacturing operations to Jabil Circuit, Inc. This lowered Hewlett-Packard's employment by another 300 jobs. However, this change has had a negligible impact on this sector's employment. This is because Jabil has hired most of Hewlett-Packard's formatter operation's staff and kept them in Boise. Idaho electrical and nonelectrical employment is forecast to rise 9.3% in 1998, 3.4% in 1999, 3.6% in 2000, 3.4% in 2001, and 3.1% in 2002.

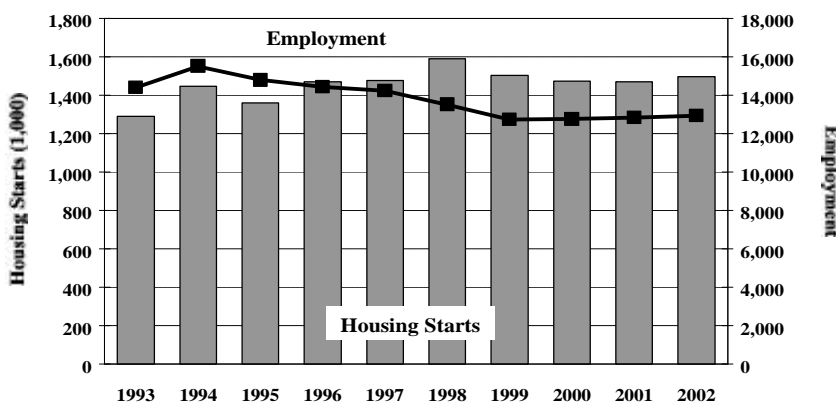
Idaho Electrical & Nonelectrical Employment



Lumber and Wood Products:

Idaho lumber and wood products employment is projected to decline over the forecast period, continuing a down cycle that began in 1995. From that year to 1997, the number of jobs in this sector has fallen from 14,795 to 14,241. Unfortunately, job losses continued through 1998. About 40 positions were lost when Boise Cascade closed its Horseshoe Bend Mill in the fall of 1998. But bad news was not limited to Southern Idaho. About 50 workers lost their jobs when the Gem State Lumber Company Mill was

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



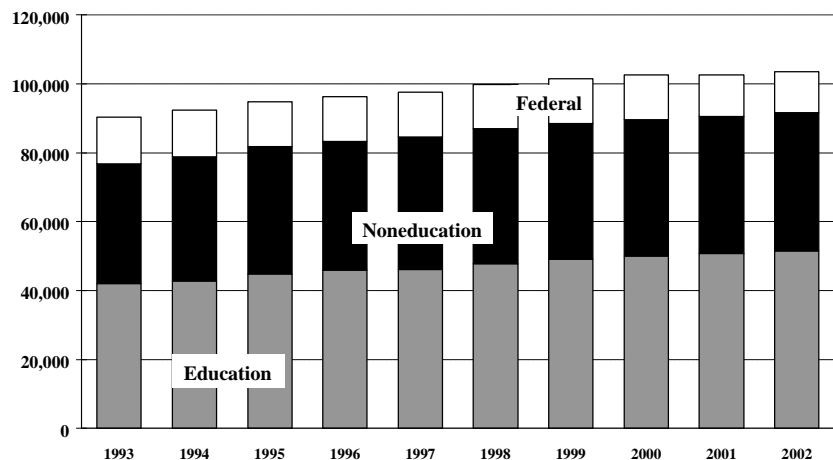
Sources: Standard and Poor's DRI and DFM

salvaged. Benewah County lost its second largest employer when Rayonier Incorporated decided not to rebuild its Plummer sawmill that burned last July. Nearly 125 employees worked at the sawmill before the fire. In November 1998, Crown Pacific announced that it will close its Colburn, Idaho sawmill in January 1999. Nearly 100 workers will be affected by the closure. Company officials cited low lumber prices and the sawmill's age as the reasons for the closure. In other news affecting the Panhandle's lumber and wood products sector, last fall Louisiana Pacific puts its Chilco and Sandpoint operations up for sale. Most of this industry's current woes can be traced to supply rather than demand. The strong dollar and weak Asian economies have dampened the demand for lumber and wood product exports. Thus, these exports have been redirected to the domestic market. This helps explain why lumber prices have been relatively soft despite the strong national housing market. In addition, the weak Canadian dollar has lowered the price of Canadian wood products, which has also contributed to the already swollen supply. These are short-term challenges. The major long-term challenge facing this industry is the dwindling supply of timber from public lands. Idaho has traditionally been dependent on timber from federal lands, but in recent years the supply of logs from these public lands has fallen. The uncertainty of public timber supply should limit future investment and employment in the Gem State's lumber and wood products sector. From 1998 to 2002, Idaho lumber and wood products employment is projected to fall from 13,519 to 12,951.

Federal, State, and Local

Governments: Idaho government employment growth should slow noticeably over the forecast period. Thanks to a booming economy and strong population growth, Idaho state and local employment advanced over 3.5% annually from 1990 to 1995. In comparison, national state and local employment averaged just 1.6% annual growth over the same period. However, Idaho will see this spread shrink over the forecast period. As overall employment and population growth slow over the next few years, so will state and local government employment. In addition, future employment growth will be challenged by laws limiting Idaho local governments' budget growth. From 1998 to 2002, Idaho state and local employment is expected to rise an average of 1.3% per year. This is slightly slower than its national counterpart that is forecast to increase about 1.9% per year. Education-related employment should grow slightly faster than the Idaho government average. Specifically, Idaho education-related government employment is projected to expand 1.9% annually from 1998 to 2002, from nearly 48,000 to just over 51,600. On the other hand, Idaho noneducation government employment should rise just 0.6% per year. As a result of ongoing federal austerity measures, Idaho federal government employment is anticipated to decline over the next few years, going from 12,954 in 1998 to 11,966 in 2002, a drop of about 2.0% per year. It will, however, get a one-quarter respite in the beginning of 2000 with the hiring of temporary workers for Census 2000.

Idaho Government Employment

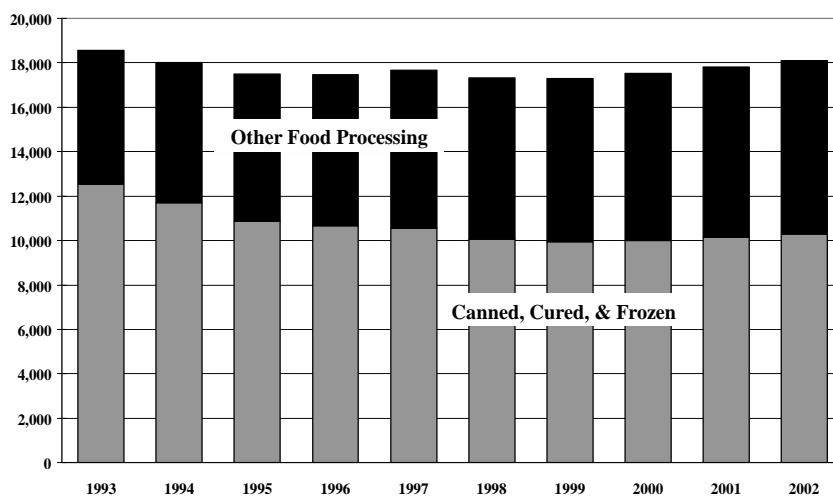


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Food Processing: Idaho's largest nondurable manufacturing sector suffered a blow last fall when H.J. Heinz Company announced that it will be consolidating Ore-Ida Foods Incorporated and Weight Watchers Gourmet Food Company into a new Pittsburgh-based entity called Heinz Frozen Food Company. The move will cost approximately 400 jobs in Idaho. Nearly 250 jobs at Ore-Ida's Boise

headquarters will be lost when the move is completed this July. All current Boise employees will be given the opportunity to apply for jobs in Pittsburgh. This decline follows the loss of about 150 positions that resulted from the sale of Ore-Ida's food service business to McCain Foods of Canada. After this year's changes, only about 85 of the company's employees will remain in Boise. In addition to this drop, nearly 150 workers at the Weight Watchers Pocatello plant will lose their jobs. The Gem State's food processing employment is forecast to decline 1.8% in 1998, fall another 0.2% in 1999, then rise 1.2% in 2000, 1.7% in 2001, and 1.6% in 2002.

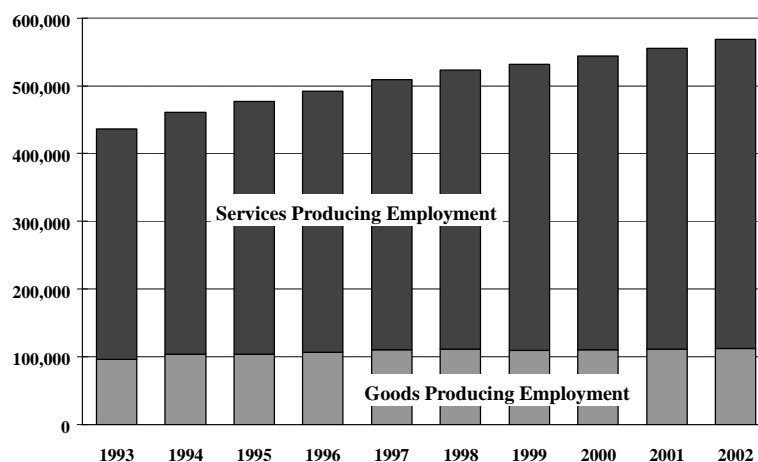
Idaho Food Processing Employment



Services-Producing Industries:

The services-producing sector is the state's largest and most diverse employment category. There were nearly 400,000 service-producing jobs in 1997, which was nearly eight of every ten jobs in Idaho. This category includes finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Not surprisingly, this sector has been the major engine of growth over the last few years. Over the ten years from 1987 to 1997 Idaho has gained 135,000 services-producing jobs. This represents more than three-

Idaho Nonfarm Employment



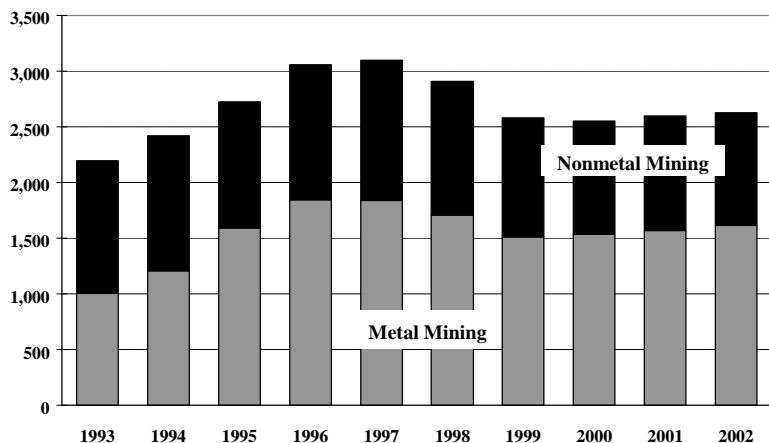
quarters of the state's total nonfarm job increase during that same period. This growth is attributable to the positive influences of favorable cyclical and structural factors. Structural changes include the movement of certain "back office" operations into the state. Two examples of this are the Sears Regional Credit Center and the MCI Call Center, both are based in Boise. The services-producing sector has also been bolstered by ongoing structural changes. One of the most significant trends has been the increasing number of women in the labor force. This has raised the demand for a wide range of goods and services, such as childcare and meals away from home. Another change agent has been the growing number of single-person and single-parent households, due partly to the increasing number of persons delaying their first marriages and the greater number of divorced persons. All of these factors will continue to play a role in the future of the trade and services sectors. Other demographic trends also figure in this sector's future. Most notably, as this country's baby-boom generation ages, it will strain the supply of existing services for the aged. In addition, this generation of older persons will probably be healthier than previous

generations and will demand more recreational/leisure services. Idaho services-producing employment is forecast to rise 3.5% in 1998, 2.5% in 1999, 2.4% in 2000, 2.5% in 2001, and 2.8% in 2002.

Mining: The expected slowing of the national economy will also take a toll on the state's mining sector. After rising four straight years, Idaho mining employment peaked in 1997 at just under 3,100. Despite a deflationary trend in many metal prices, silver was actually about \$1/troy ounce higher in the first half of 1998 compared to 1997's average price. Unfortunately, other important metal prices did not fare as well. Zinc, lead, and molybdenum prices fell below last year's average. Lower prices contributed to the decision to cut production

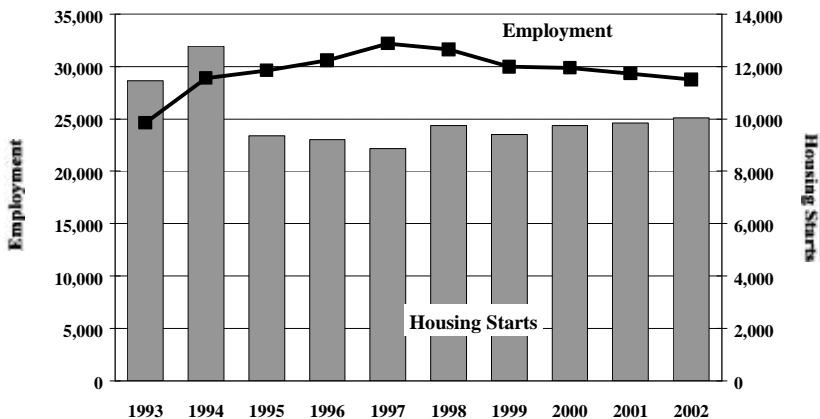
and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. Both metal and nonmetal mining employment will slide this year. Metal mining employment will take the biggest hit. Its employment is forecast to drop from about 1,840 in 1997 to 1,619 in 2002. This pattern continues the recent trend in which no metal mining employment zenith has matched the previous peak. For example, metal mining employment peaked at 2,800 in 1984. Its next peak was 2,754 in 1990. But 1997's peak was just 1,847, about 900 lower than 1990's high. Metal mining employment in Idaho is expected to go from 1,710 in 1998 to 1,619 in 2002. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Agricultural woes will probably result in a reduction of fertilizer production and shrinking acreage. This will affect companies in Southeast Idaho where both phosphorus ore is mined and fertilizer is manufactured. As a result of these negative factors, Idaho nonmetal mining employment is projected to decline from 1,256 in 1997 to 1,009 in 2002. Overall, total mining employment in the Gem State should drop from 2,908 in 1998 to 2,628 in 2002.

Idaho Mining Employment



Construction: Construction employment is expected to slowly decline over the forecast period. This is a marked departure from the earlier part of this decade when this sector enjoyed robust job gains. Hard times fell on the construction sector during the 1980s, and it hit a low in 1987 when employment dropped below 14,000. In that same year there were only 3,400 housing starts in the entire state. However, in the late 1980s the combination of a strong economy, strong population growth, and increased public and

Idaho Construction Employment and Housing Starts



private building returned construction employment on a growth path. For example, from its 1988 nadir to its peak in 1994, the number of housing starts more than tripled from 3,334 units to 12,768 units. Over this same period the number of Idaho construction jobs climbed from 14,205 to 28,983, which translates to an incredible 12.6% average annual pace. The number of housing starts dropped to a still-high 9,300 units in 1995 and declined slightly in both 1996 and 1997. However, thanks to strength in nonresidential building, construction employment managed to still post modest gains in these three years. The current forecast calls for Idaho housing starts to eventually work its way back up to about 10,000 by the year 2000. After peaking at just over 32,000 in 1997, Idaho construction employment is expected decline to about 28,800 jobs by 2002.